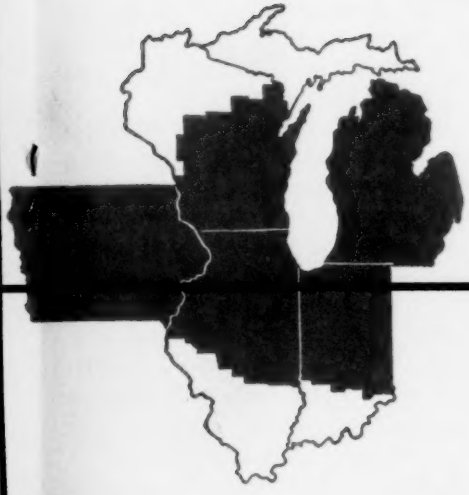
A review by the **Federal Reserve Bank of Chicago**

Business Conditions



1960 September

Contents

THE Trend OF BUSINESS

Taking into account seasonal trends, the plateau in industrial production reached last spring, at about 109 per cent of the 1957 average, continued through July and probably August as well. This period has been characterized by slippage in the hard goods industries and an improvement in soft goods. Virtually all major nondurables industries increased or maintained output during recent months. Within the durables sector the situation has been mixed.

Weakness has been noted in autos, steel, farm and construction machinery and appliances while production of aluminum and copper products, industrial machinery and some types of railroad equipment has risen. This is the sort of development for which the term "rolling adjustment"—a period in which total activity is fairly steady while ups and downs occur in individual lines — was coined several years ago.

Sometimes it is suggested that a leveling off in the economy must be the prelude to a general deterioration. But a glance at the line of aggregate industrial production during the postwar period shows that there were plateaus in 1947, 1951 and 1956 which were followed by renewed upswings rather than declines.

As the tempo of economic activity is revealed in the coming months by the various statistical indicators, two qualifying factors should be kept in mind. First, actual activity, in contrast to seasonally adjusted estimates, can be expected to rise substantially from the July low through the early fall. This is the normal seasonal trend. Total industrial production typically advances 9 per cent between July — always the low month by a wide margin — and October which usually can be expected to see the high for the year. As a result, there can be little doubt that business volume is moving up at the present time. The question is, "Will the rise be more or less than the seasonal pattern?"

The second factor in the picture which can lead to confusion relates to last year's steel strike. Many measures of activity are commonly presented in terms of the change from the previous year. These comparisons are distorted currently because about 85 per cent of the nation's steel capacity was strike-bound between mid-July and mid-November 1959. The steel firms and those industries which supply them with materials and transportation services were affected directly. Later, steel-using industries, principally construction machinery and automobiles, were forced to cut production. As a result, even if the pace of total industrial activity remains unchanged in the autumn months, appreciable gains from year-ago levels will be recorded.

Employment stabilizes

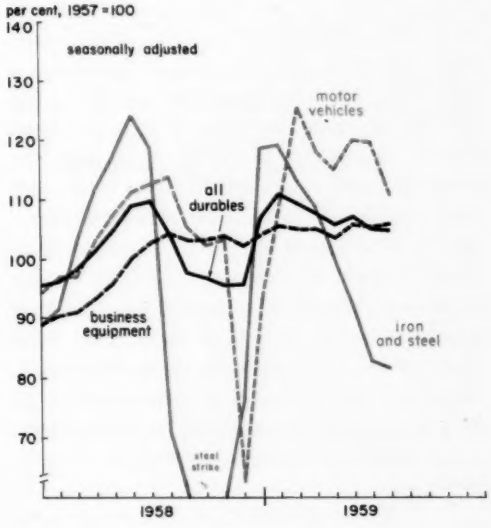
Total nonfarm employment, seasonally adjusted, was almost the same in July as in April. The total was 53.4 million — a half million more than the high pre-steel strike level of 1959. Between April and July,

Federal employment dropped by 150,000 (mainly census takers) and the steel industry reduced employment by about 100,000. Thus, over-all stability was maintained despite depressing influences.

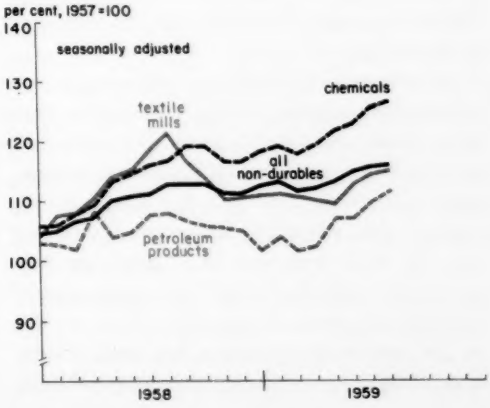
Although total employment has remained at record levels since last spring, unemployment has risen as a result of additions to the labor force, which includes both workers and those seeking work. About 5.4 per cent of the labor force was estimated to be unemployed nationally in July as compared with about 5 per cent both in April and a year ago. Moreover, the number of persons age 20 and over who indicated they were unemployed rose in July in opposition to the usual seasonal pattern. In the late spring and in July, new claims for unemployment compensation were running about 30 per cent above the relatively low level of last year in the nation and were about 50 per cent higher in the Midwest. To a large extent, these claims reflect layoffs in many of the hard goods industries.

The easing of the employment situation in a number of Midwest centers was indicated in May and July when the Davenport-Rock Island-Moline area, Battle Creek, Kalamazoo, Rockford and Racine were reclassified by the Department of Labor as having a somewhat higher rate of unemployment. Nevertheless, only Detroit, Battle Creek and Terre Haute, among Midwest centers, are considered to be in the "substantial labor surplus" class — over 6 per cent current and prospective unemployment. On the brighter side, five Midwest centers — Milwaukee, Kenosha, Madison, Cedar Rapids and Des Moines — are rated by the Department of Labor as being in the relatively full employment group, having less than 3 per cent unemployment. Only fourteen other centers in the entire nation are so designated.

Major hard goods industries have reduced production as inventories were cut back . . .



while output in most soft goods industries has risen along with the rise in personal income



Inventory adjustment completed?

Through the summer there was growing evidence that production cutbacks had brought inventories in line with management's goals for an increasing number of firms. In a few sectors such as automobiles and appliances, stocks of finished goods have been quite large by historical standards. But in most industries inventories have not been heavy, particularly if holdings at both the manufacturing and distribution levels are considered as a whole. Nevertheless, the easy supply situation in virtually all lines and the hope for price concessions rather than price increases induced many businessmen to pare inventories. The fact that some firms have been on a hand-to-mouth basis for several months is reflected in the larger volume of freight in less-than-carload and less-than-truckload lots and the increase in air express business.

In July, 93 per cent of the Purchasing Agents of Chicago were able to obtain goods on a lead time of less than 60 days. Last January, 75 per cent were in this category and a year ago, 69 per cent. This shortening of the order lead time has had the effect of reducing the volume of new orders relative to the volume of production and shipments, and it has also enabled customer firms to reduce stocks on hand.

As a result of inventory adjustments already accomplished, it is not surprising that there have been reports of modest order improvements in a variety of lines such as steel, metal fasteners, tool and die shops, paper cartons and electrical components. In the case of steel, however, new orders in July were not much above the production rate of only 55 per cent of capacity. The stretch-out in auto industry orders has been largely responsible for keeping total orders below expectations. Current usage of steel is well above 55 per cent of capacity.

Consumer durables sales off

The level of retail sales was somewhat lower recently than in the spring. Mainly, this reflected reduced sales of durable goods.

In July, sales of domestically produced cars were below the year-ago level for the first time during 1960. The first six months had witnessed an 11 per cent increase. There was only slight improvement in early August. Sluggish sales caused the auto manufacturers to slow production schedules on 1961 models. Despite production cutbacks, on August 1 the new car inventory remained near the 1.1 million level — about 100,000 more than a year earlier when stocks had been built up in anticipation of the steel strike.

Sales also have been less vigorous than expected in the case of most household appliances. In part, this is a reflection of the lower level of housing starts, but sales at retail outlets also have been slow. At the start of the year, manufacturers expected large gains during 1960 for most types of appliances. However, total shipments during the first half were down substantially.

Recent surveys of consumer buying intentions indicate that little improvement is in store for most hard goods. Only in the case of new cars is the purchase of a larger number of units contemplated. In evaluating surveys of this type, it should be remembered that appliances are not as important in overall consumption expenditures as they were a few years ago and that consumer attitudes can change quickly as their views on income prospects shift. The rather favorable buying intentions suggested by surveys taken in the early months of 1960 have not been realized.

Bank debits—a measure of local business activity

Like most businessmen, bankers have found that among the most useful yardsticks for appraising the current business situation are measures of *consumer and business spending*. Very often, however, these are not available for the particular areas in which a bank operates, and often it is impossible to infer from national and regional data a reliable indication of trends in local areas.

It is possible, of course, to compile purely local measures of consumer and business spending from any one of a number of sources. *Purchasers* themselves may be surveyed at regular intervals and asked to give an accounting of their expenditures, current and planned. But the cost and difficulties involved in obtaining up-to-date, reliable spending data directly from individuals is so great that this procedure is utilized only rarely.

The job is reduced considerably if the information is collected from *sellers*. Sales totals for a limited number of retail outlets provide a useful indication of consumer expenditures on certain kinds of items. However, if comprehensive coverage is desired, the number and kinds of retail outlets that must be surveyed become quite large. Furthermore, most business purchases are not made at retail stores.

A third source is to tap in at the point through which most expenditures in a community flow, namely, its banks. Measuring the total withdrawals — debits — from the accounts of numerous spending units can be accomplished by recourse to the records of a relatively few banks. Bankers in many cities have long been aware of the usefulness of bank debits as a comprehensive indicator of local spending activity.

Availability of sales figures

A large proportion of consumer expenditures is made at retail stores. Outlays for rent and services are the major exceptions. Also, consumers make some purchases from manufacturers and wholesalers, and these, of course, are not included in sales of retail establishments. In all, retail sales as conventionally measured, even if available on a comprehensive and current basis, would not be a complete measure of consumer spending in an area.

In each of four metropolitan areas in the Seventh District, the trend of retail purchases can be roughly traced in the monthly percentage changes provided by Bureau of the Census retail trade surveys. But the Census data are much more useful for the nation as a whole than for individual areas, primarily because the number of retailers included in any given area is small. Moreover, sales of the chains which operate eleven or more stores (and in some cities account for a substantial portion of sales) are reported only as national totals and, hence, are not included in the figures for individual areas.

Indexes of sales at department stores are virtually the only other measure regularly available on consumer spending in individual areas. Current information on department

store sales is provided for 35 metropolitan areas and cities by the Federal Reserve Bank of Chicago. But department stores account for only a small part of total sales; the proportion varies by area, especially in the smaller centers. In the absence of information on current sales trends in apparel stores, discount houses and furniture and home-furnishings stores — the department stores' chief competitors — shifts in sales of department stores may not be an accurate indicator of changes in consumer spending in individual areas.

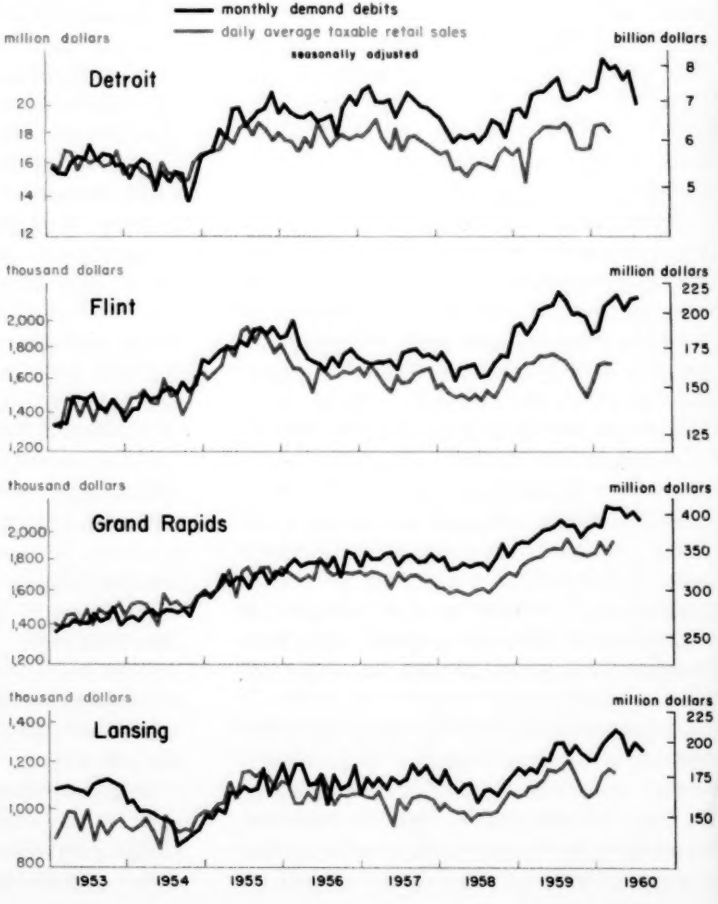
In some states, sales tax collections of the type shown in the accompanying chart for Michigan areas provide good estimates of expenditures at retail. Usually, however, these figures are available only after an interval of several months, and hence, are of limited value as indicators of current trends.

Inadequate as information on local consumer spending is, it is far better than that available on business spending. With few exceptions, there are no local data relating to business expenditures on plant, equipment and inventories.

Could debits fill the gap?

As now compiled, bank debits include the dollar volume of checks written on demand deposit accounts of individuals, businesses and state and local governments. These data are collected and published monthly for 45 metropolitan areas and cities in the Seventh

Bank debits and retail sales in selected Michigan areas, 1953-1960



The chart on the preceding page compares bank debits with taxable retail sales in Michigan's four largest metropolitan areas: Detroit, Flint, Grand Rapids and Lansing. Sales data were derived from sales tax collection statistics compiled by the Michigan Department of Revenue. Debits were compiled from regular monthly reports submitted by most of the banks in these areas.

The charts illustrate several points referred to previously. The greater increase in debits than in retail sales from 1953 to 1960 can be seen for each of the areas. In general, however, the correspondence between the series in their reactions to cyclical change is noteworthy. The series move roughly together, with the exception of Lansing during 1953-54, when some one-time changes in banking connections occurred which were unrelated to spending activity. Debits of Detroit banks typically include a higher proportion of financial payments and therefore would have been expected to show more pronounced divergences from sales than debits in other areas, but this did not occur.

On a month-to-month basis, there are irregularities and inconsistencies between the series which disappear if the figures are combined for a period of two or three months. Differences in timing of purchases and final payments, because of the use of charge accounts or instalment credit, often cause such movements. There are numerous instances where debits apparently lag sales by a month or so. This, however, is but one of the factors causing differences in the short run. The most significant relationship to be observed is the cyclical correspondence throughout the entire period.

The chance appears to be smaller with sales than with debits that a cyclical change may be obscured by irregular fluctuations. This suggests that some segregating of debits arising from transfer payments, debt and asset transactions is desirable. In the case of debits, it is always possible that the unusual, the atypical transaction will be large enough to overshadow changes in transactions resulting from final purchases of consumers and businesses.

Federal Reserve District. The debits data include most of the payments by these groups. Even the payments made with currency are included in part since much of the currency is obtained by cash withdrawals from demand deposits. Indeed, the major weakness of debits as a measure of consumer and business spending for goods and services is that they encompass too much — not too little. Debits include not only the expenditures from checking accounts on goods and services for current use, but also the disbursements for purchases of bonds, stocks, real estate and other property — transfers which are not related directly to current production and consumption of goods and services. Such transfers contribute significantly to debits totals for both individuals and businesses. For example, if an individual sells a house, common stocks or bonds and deposits the proceeds in his checking account before reinvesting, the debit to his account at the time of reinvestment may be several times as large as his annual expenditures for current consumption.

Transfers of funds from one place to another, unrelated to transfers of ownership, make up a significant proportion of

checks written on business accounts. Larger companies in particular are likely to have numerous deposit accounts and to transfer deposits from one to another in a way that bears little or no relationship to "spending" in a specific area.

The all-inclusive nature of bank debits would not in itself constitute a major weakness of debits as an indicator of spending if the various types of payments they represent were a constant proportion of the total. But such is not always the case. Debits at New York City banks, for example, showed a strong increase during 1954, a period in which economic activity, including consumer spending, was declining in most areas. This rise in debits reflected primarily greater financial activity, especially transactions in the stock market.

Total bank debits can hardly be expected to serve as an indicator of spending in the nation's large financial centers where swings in financial debits may at any particular time overshadow movements in check payments associated primarily with current production and consumption. Bank debits as presently compiled bear a more constant relationship to spending in the *smaller* cities.

It would appear that debits *can* provide a reliable indication of changes in consumer and business spending if the data are collected and interpreted with awareness of inherent limitations. At the cost of some analysis of the financial activities of a limited number of depositors, moreover, banking statistics can be made to yield an even better picture of spending.

A related approach that seems likely to be fruitful is analysis of the markedly less numerous *credits* or additions to the demand deposit accounts of certain types of businesses. Credits of retailers resulting from business receipts, for example, are fairly readily distinguishable from other types of credits and bear a close relationship to sales of these establishments.

Bank debits have been increasing secularly at a more rapid rate than production or consumption as more and more businesses and individuals have turned to this convenient way of making payments. Thus, when percentage changes in debits to demand deposits for a large number of Midwest areas are examined with comparable percentage changes in sales at retail establishments between the 1954 and 1958 Census years, it is found that debits in each area increased significantly more than sales. But more important, from an analytical standpoint, the ranking of areas in terms of size of debits increase is very similar to the ranking by sales increase.

In addition, a better understanding of the seasonal patterns — intra-weekly, intra-monthly and month-to-month — would enhance the usefulness of the data. With the aid of electronic computers, various factors affecting the volume of debits can be tested and the data adjusted with less difficulty than previously. Apparently, inadequate attention to these seasonal factors is behind much of the choppiness or erratic behavior of the series that has handicapped their use thus far.

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Can debits series tell even more?

The real hope for the future usefulness of bank debits as aids to economic analysis and in keeping tab on trends in individual areas lies in *disaggregation* of the data, that is, separating the information into its parts. A first important step lies in the direction of separating check payments of individuals from those of businesses and, secondarily, some kinds of businesses from others. With this information available, debits could be used not only to describe the specific environment in which individual banks operate, but the details on spending in particular lines would also be useful to other businesses, many of which may be bank customers.

Advances in automation in the processing of checks may make feasible a continuous measurement of spending by various sectors in individual areas. The technique known as Magnetic Ink Character Recognition seems likely to gain widespread acceptance (see *Business Conditions*, April 1960.) This technique provides for machine identification on checks of the customer's account along with the routing symbol-transit number and the amount of the check. Insofar as "character recognition" includes an ownership designation, it solves the input problem for the collection of very useful information by spending sector. This and other recent developments in data processing indicate that information on local economic changes may be available before too long, in considerable detail and as a by-product of other operations at a nominal cost.

The outlook for U.S. foreign trade

The persisting deficit in the United States international balance of payments has focused much attention on our foreign trade position. In 1958 and 1959, this country experienced a 7.3 billion dollar deficit in its international accounts. Latest estimates for 1960 indicate a deficit of about 2.5 billion dollars, which would push the three-year cumulative deficit to about 10 billion. This represents a marked contrast with the early 1950's when our deficits averaged only 1.5 billion dollars per year.

In its simplest terms, a balance of payments deficit means we are not selling enough goods and services abroad and earning enough on our overseas investments to cover our payments to foreign countries for imports, services, loans and investments, military expenditures and Government aid. This is shown in the accompanying table.

The deficit is covered through net dollar payments to foreign agencies, including banks, corporations and individuals. These payments may be retained in the United States as working balances in the form of bank deposits and investments in short-term securities to support trade and other activities, or they may accrue to central banks and be converted to gold, causing a gold outflow. Regarding the latter, several European central banks use their net foreign exchange receipts to buy gold because they prefer to

U.S. balance of international payments, 1959*

Payments	(billion dollars)	Receipts	
Merchandise imports	15.3	Merchandise exports	16.2
Income on foreign investments in U.S.	.8	Income on overseas investments	3.0
Other services, private remittances and pensions	5.1	Other services	4.2
Military expenditures	3.1	Foreign long-term investments in U.S.	.6
Private U.S. capital outflow, net	2.3	Unrecorded transactions, net	.8
Government grants and loans, net	2.0		
	28.6		24.8
Deficit			3.8
Covered by:			
Gold sales to foreigners		.7	
Increase in dollar assets held by foreigners		3.1	3.8

*Excludes $1.4 billion additional subscription to International Monetary Fund in second quarter. Also excludes military supplies and services financed by grants.

hold their official reserves in gold. Other countries that maintain both gold and dollar reserves may use part of their net receipts to buy gold when they have sizable reserve gains. Gold movements are also influenced by interest rate trends in various international financial centers. When the interest rate spread between the New York and European money markets widens due to an easing in our rates or stiffening in Europe, foreigners may convert their dollar balances to other currencies in order to reinvest their funds at more attractive rates abroad. The dollars then accrue to foreign central banks, which may buy gold.

The concern about our balance of payments position in 1958-59 probably stemmed from the fact that the large deficits could be directly related to a shrinkage in our merchandise trade surplus after mid-1957. This arose from a marked tapering off of exports and a vigorous rise in imports. In contrast, our military expenditures, capital investments and other transfers abroad remained fairly stable.

Naturally, one would expect the 3.2 billion dollar decline in our exports from 1957 to 1959 to be largely attributable to disappearance of temporary heavy shipments of crude oil, petroleum products and other basic commodities to Europe in connection with the Suez crisis. However, nearly 40 per cent of the decline stemmed from a 1.2 billion dollar drop in exports of finished manufactured goods, which constitute the largest single component in our export trade.

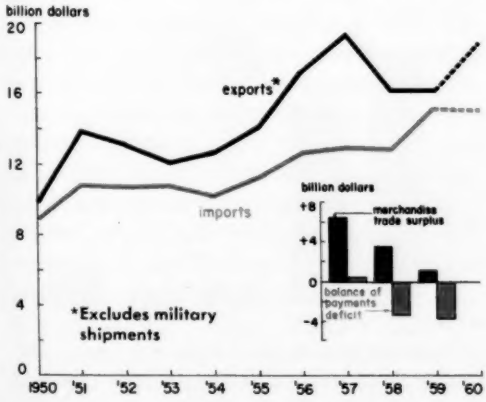
The import boom, on the other hand, was largely the result of a sharp rise in imports of finished manufactured goods. These increased from 3.5 billion dollars in 1957 to

5.2 billion in 1959. As a result of these movements, net exports of finished manufactured goods declined from a high of 6.9 billion dollars in 1957 to 4.1 billion in 1959, the latter figure representing the smallest surplus since 1950. Clearly, a downward swing of nearly 3 billion dollars in net exports of finished manufactured goods can be viewed as a major factor in our balance of payments deficits in 1958 and 1959.

The brunt of the decline in net exports of finished manufactured goods largely fell upon the automobile industry and producers of machinery and other capital goods. Net exports of autos and parts dropped from approximately 1 billion dollars in 1957 to less than 0.3 billion in 1959, while net exports of capital goods, including construction equipment, engines, electrical machinery, machine tools, tractors and farm equipment, etc., declined from 3.6 billion to 3.1 billion dollars during the same period.

The auto export situation needs little elaboration. Primarily, it reflects the same factors that account for the tremendous and well known growth in popularity of European cars among the American public. Imports of foreign cars mushroomed from 57,000 units in 1955 to 668,000 in 1959, or nearly twelvefold, while exports of American cars declined over 50 per cent during the same period. In recent months, however, imports of foreign cars have dropped sharply probably owing to keener competition from the new American "compact" models.

Rising U.S. imports, falling exports cause deficit in balance of payments beginning in 1958



The reduction in our exports of capital goods items was partly cyclical in nature, reflecting a leveling off of business activity in Western Europe in 1958 and a substantial decline in capital investment expansion in Canada and Latin America associated with recession and a slowing down of an inflow of United States funds into mining and oil ventures. The decline in our capital goods exports can also be attributed in part to growing competition from foreign suppliers in overseas markets. This competition seems to have hit American producers of power generating equipment, electrical machinery and farm equipment particularly hard since our share of the total world export trade of these items has slipped materially since 1953.

The deterioration in our export picture in 1958-59 has elicited much discussion on the competitive position of American goods in international trade. In the latter part of 1959, when there was much concern about possible inflationary excesses in the American economy, the view was frequently expressed that firms in this country had priced their products out of the international markets. It was suggested that our manufacturers could not hope to compete in overseas markets against foreign suppliers who had access to low-cost materials and labor. Vigorous restraints on price and wage increases would be necessary on the home front if we were to recoup our former world

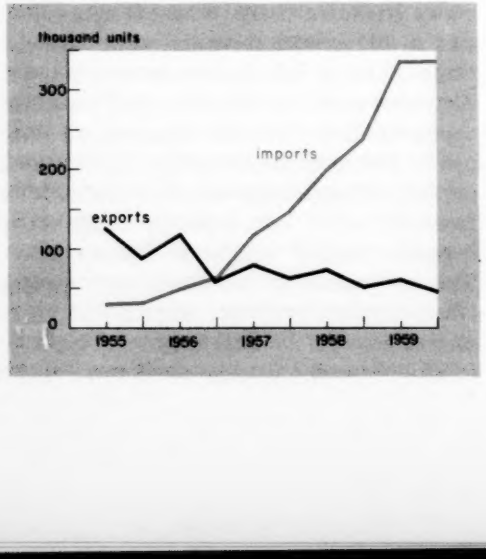
trade position. It was also maintained that growth of our export trade was curbed by maintenance among overseas nations of such discriminatory import restrictions as exchange controls and quotas on American goods.

Although these considerations may be valid for certain commodities or in specific trade areas, they do not adequately explain the major part of the 1958-59 deterioration in the international trade position of the United States. This decline, as reflected in the shrinking merchandise trade surplus, was in large part a direct result of the marked resurgence in the productive capacity of the Western European nations and Japan. As these nations were rebuilding their economies following World War II, with important assistance from this country, United States manufacturers dominated international export channels. It can be said that expanding exports from this country were virtually guaranteed by the Marshall Plan and other aid programs.

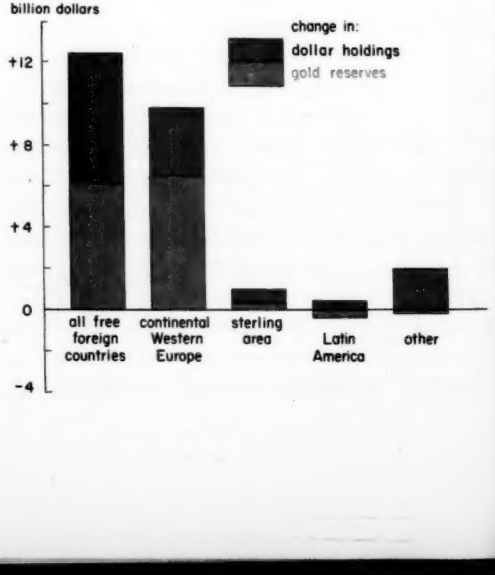
With the task of reconstruction essentially completed by the early 1950's, these nations were able to compete again for international markets, offering broad lists of goods in large volume. Their return was further characterized by vigorous selling techniques. Many nations, notably Germany, Belgium and Japan, placed prime emphasis on expanding domestic production and employment through development of overseas markets. Demand in domestic markets was restrained and supplies were limited by stiff import restrictions and allocations of output for export. Such policies reflected a desire to strengthen badly depleted gold and dollar reserve positions and thereby alleviate possible balance of payments crises.

Within this framework, the Western European nations and Japan added substantially to their gold and dollar reserves. In the last six years, the gold and dollar reserves of continental Western European countries doubled, increasing from 10 billion dollars at the end of 1953 to nearly 20 billion at the end of 1959. It is interesting to note that the rise in foreign dollar holdings since

Sharp rise of foreign auto imports slowed by competition of U.S. compacts in 1959



Foreign holdings of gold and dollars show large increase since 1953



1953 has exceeded the increase in foreign gold reserves. Even during the first half of 1960, as the gold outflow accelerated owing to the pull of high interest rates in European money markets, foreigners continued to add to their dollar holdings at the rate of more than 150 million dollars per month.

What is the outlook for U.S. exports today? There are several encouraging signs. For one, the robust recovery of Western European nations and Japan to pre-eminence in world trade and the concomitant strengthening of their foreign exchange reserves have contributed to a marked relaxation in discriminatory restrictions on imports of American goods. Principal indications of this have been the establishment of freer convertibility of currencies and a general loosening of quantitative import quotas on American goods throughout the free world. In its 1960 *Annual Report on Exchange Restrictions,* the International Monetary Fund noted the majority of its member nations had "achieved the elimination of dollar discrimination." Many European nations, however, still maintain stiff quantitative restrictions against the import of products important to the United States — fruit, wheat, barley, tobacco, canned meats and poultry, for example.

Another reassuring aspect, a study of price and wage movements in this country and abroad suggests the competitive position of American industry in world trade may be improving. Since 1953, the consumer price level in the United States has risen much less rapidly than in our principal competitor nations in international trade. Hourly wages in manufacturing industries, too, appear to be increasing at a much slower pace here than abroad, at least as measured in percentage changes. These trends mirror possible inflationary pressures in Western

U.S. share in total export trade of selected capital goods items produced by leading industrial countries

	1953	1956	1958
		(per cent)	
Metal working machinery and machine tools	43	36	39
Power generating machinery	29	27	25
Electrical machinery and appliances	33	28	26
Agricultural machinery and tractors	61	55	47

Europe and Japan where heavy demand has pushed production to near capacity levels. Reports of increasing shortages of labor and plant capacity in these countries are frequently heard today.

The economic picture in Western Europe and Japan at mid-1960, as described above, contrasts sharply with the American scene where unused capacity exists in a number of our major industries. This idle capacity, along with ample dealer stocks, has probably contributed to recent price weakness on such items as steel products, chemicals, consumer appliances, portable typewriters and electrical apparatus. The evidence of price weakness may also reflect to a certain extent keener competition exerted by foreign suppliers. Foreign competition, for example, probably was a factor in the 40 per cent price cuts announced recently by major manufacturers of portable typewriters.

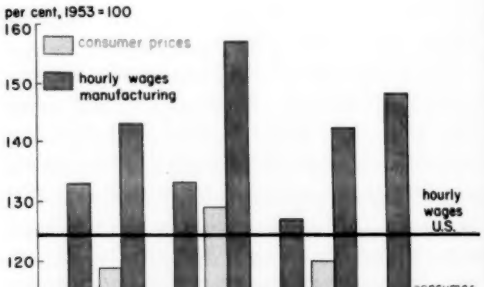
These developments should help American producers to hold their own against foreign suppliers in domestic markets, as well as compete more effectively in overseas

markets. Moreover, the presence of excess capacity should serve as a strong stimulus to American manufacturers to seek to expand sales abroad so as to help absorb the slack.

The Government's national export expansion program launched last spring may also be of considerable help to exporters. Briefly, the principal features of the program are: (1) arousing greater foreign trade interest among American business firms by stepping up the trade promotion activities of the Department of Commerce and other Government agencies; (2) improving and enlarging existing Government trade services to provide more detailed information to American firms on export possibilities in overseas markets; (3) greater U.S. participation in international trade fairs and trade missions; (4) expanding the role of the Export-Import Bank to include export credit insurance; and (5) accelerating efforts to get foreign governments to remove remaining restrictions and discrimination on American imports. This program has received widespread support from business and trade organizations, many of which have begun to urge their own member firms to investigate export possibilities abroad. Los Angeles and Pittsburgh business groups have started "world trade clinics," and Chicago has launched a drive to promote area products in Europe.

Encouragingly, our export picture has shown a healthy improvement since the second half of 1959. Exports of automobiles, commercial aircraft, industrial machinery and steel products are up significantly over last year. The Department of Commerce estimates merchandise exports totaled 9.6 billion dollars for the first half of 1960, up 21 per cent over the first half of last year and not far off the record pace set in 1957 when exports were stimulated by the Suez incident. Meanwhile, merchandise

Wages and prices abroad showed larger percentage increases than U.S., 1953-59



imports have risen at a much slower pace—totaling 7.6 billion dollars in the first half of this year versus 7.4 billion in the first half of 1959.

Based on these trends, merchandise exports for 1960 are now expected to climb to 19 billion dollars, up 2.7 billion over 1959, with imports expected to total 15 billion, about the same as last year. This will provide us with an export trade surplus of 4 billion dollars versus only 1 billion in 1959.

Largely owing to this marked improvement in our export picture, Government and interested private sources have scaled down their projections of the U.S. international balance of payments deficit for 1960. Estimates of the deficit now cluster around 2.5 billion dollars compared with a deficit figure of 3 billion projected by the Department of Commerce earlier in the year.

Although these are encouraging signs, it

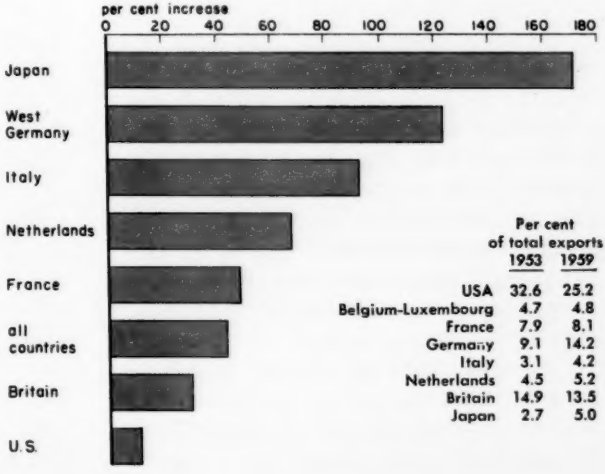
is too early to say the United States has solved its export and balance of payments problems. The buoyancy in our export picture during the first half of 1960 reflected in part unsustainably heavy shipments of raw cotton and new commercial jet aircraft to Europe. Our exports of machinery and steel products, in addition, have undoubtedly received a further boost from the high level of business activity in Western Europe. If business activity overseas were to level off or decline, our exports would probably taper off as they did in 1958.

The outlook for exports to Latin America, which account for roughly 20 per cent of our total export trade, is clouded by political uncertainties and possible balance of payments problems. A marked decline in basic commodity prices since the Korean War, plus a slowdown in United States private investment, contributed to a steady diminution of Latin American foreign exchange reserves which, in turn, seriously impaired the region's ability to finance imports. Reflecting these developments, our exports to Latin America fell from 4.6 billion dollars in 1957 to 3.5 billion in 1959, or 23 per cent. This downward trend has continued through the first quarter of 1960.

On the import side, despite a leveling off of total imports, the inflow of finished manufactured goods still displays a tendency to increase. In the first quarter of 1960, imports of finished manufactured goods amounted to 1.4 billion dollars, up 24 per cent over the first three months of 1959. Recent price cutting by American firms and aggressive merchandising of new products such as the "compact" cars, however, may help to check this rise in the months ahead.

As we enter the second half of 1960, the outcome of our export picture will depend heavily on whether areas of recent strength show continued improvement. It will also depend on whether exports to Canada and Latin America, currently well below 1957 levels, pick up. Pursuance of non-inflationary domestic economic policies will be vital to our maintaining a strong competitive position in international trade. Success of our national export promotion drive will require unfailing support from the Government and private groups. Securing further reductions in tariffs and quantitative import restrictions needed to facilitate maximum international free trade will require the cooperation of the rest of the free world.

Growth in exports of principal industrial countries was greater than for the U.S., 1953-59



	Per cent of total exports 1953	1959
USA	32.6	25.2
Belgium-Luxembourg	4.7	4.8
France	7.9	8.1
Germany	9.1	14.2
Italy	3.1	4.2
Netherlands	4.5	5.2
Britain	14.9	13.5
Japan	2.7	5.0

Loan ratios rise further

At the midyear call date, total loans of all Seventh District member banks amounted to 49 per cent of their aggregate deposits, compared with 44 per cent a year earlier. This higher ratio of loans to deposits reflected a 15 per cent expansion in loans, coupled with a gain of only 4 per cent in deposits. However, the loan rise was concentrated in the latter half of 1959. The first six months of 1960 saw little further loan growth, while deposits declined somewhat.

Although increases in loans were quite general, ratios of loans to deposits for various groups of banks continued to be spread over a wide range and were even more diverse, of course, for individual banks. The extremes were in the city of Chicago, where loans at midyear averaged nearly 60 per cent of deposits at the largest banks but were well under 40 per cent at most of the smaller institutions.

In general, loan ratios tend to be higher in the major cities than in other areas and at large banks as compared with smaller ones. In Michigan, however, ratios of even the smaller country banks exceeded those in Detroit. The high ratios at Michigan country banks can be explained, at least in part, by the relative importance of time deposits, which are mainly channeled into mortgages. Only in Michigan did loans at banks outside the major cities average more than half of deposit volume.

City banks show the greatest impact of cyclical variability in loan demand—falling most in recession years and advancing faster in periods of rising activity.